

USAF & NRO REVIEWS
COMPLETED

COR-0366
Copy 3 of 6

5 March 1959

MEMORANDUM FOR THE RECORD

SUBJECT : Trip Report on Meeting in Philadelphia
between General Electric and LSMD

1. A meeting was held on 2 - 3 March at G.E.'s Philadelphia facility. The purpose of this meeting was to discuss and analyze the overrun of costs G.E. was experiencing under their portion of the CORONA program. The following persons were in attendance:

2 March 1959

25X1 [redacted] - G.E. - Marketing Mgr.
[redacted] G.E. - Project Engineer
[redacted] - G.E. - Contracts
[redacted] LSMD, Project Mgr.
[redacted] - LSMD - Contracts
[redacted] LSMD - Project Eng.
[redacted] LSMD - G.E. Resident Eng.
[redacted] - G.E. - LSMD Resident Eng.
Capt. W. Johnson - A.F., BMD
[redacted] Project Hqs
Mr. J. McDonald - Project Hqs
[redacted] AF Auditor

3 March 1959

All of the above, and:

25X1 [redacted] LSMD
25X1 [redacted] - G.E.

2. The meeting opened with a presentation by G.E. of the total Program cost picture as of now. The following is a recap:

Total Program - "Black" and "White"
(in 1,000 of dollars)

	<u>Original</u> <u>Quote of</u> <u>9/27/58</u>	<u>Actual Cost</u> <u>as of</u> <u>1/25/59</u>	<u>Estimated</u> <u>to</u> <u>Complete</u>	<u>Total</u> <u>Revised</u> <u>Cost</u>	<u>Variance</u>
Material					
Labor					
Overhead					
Total (less G&A)					
G&A					
Total Cost					
Fixed Fee					
Total					

25X1

3. The LSMD people then requested a detailed description and explanation of the individual elements of cost by category. The first category discussed was Material which includes subcontracting and outside purchases. The following is a breakdown of the major subcontract issued by G.E. and their present estimate of what is happening and why.

	<u>Original</u> <u>Estimate</u>	<u>New</u> <u>Estimate</u>	<u>Increase</u>
(1)			
(2)			
(3)			
(4)			
(5)			
(6)			
(1)			

25X1

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4. Of the above subcontracts all but have been issued on a CFF Letter Contract basis. In most instances, deliveries are substantially completed. However, not one has been definitized. G.E. states the problem was one of continual change in the state of the art and a firm scope and costs could not be arrived at. Further, it appeared that some of the increases in cost were known to G.E. prior to their proposal to LSMD. However, it could not be determined exactly where their system fell down and why they were not reported or included in their LSMD estimate.

25X1

5. The balance of material costs were made up of Purchase Orders (2,000 in number). These were briefly reviewed by the LSMD people as to scope. It would appear that because of the state of the art, G.E. had ventured down several unfruitful roads which resulted in cancellations and many new approaches to a problem having to be taken. This was thought to be normal in a new program. Whether or not it was higher than average could not be determined.

6. The next element of cost discussed was the Labor Category. A summary of the Labor picture for the total Program is as follows:

(In \$1,000 of Dollars)

	<u>Original Quotation</u>	<u>Actual thru 1/25/59</u>	<u>Estimate to Complete</u>	<u>Total New Estimate</u>	<u>Variance</u>
Engineering					
Other Eng.					
Employees					
Drafting					
Shop					
Total					

25X1

The Subcontractor's shop orders were reviewed by LSMD and were found to be in order and consistent with the scope of the Program in most instances. However, again, there was the impression that early in the Program several approaches resulted in dead ends and had to be changed.

7. At this point, G.E. was asked to break down the total Program costs into "Black" and "White" charges. The following "ground rules" had been established by G.E. and LSMD for accomplishing this:

WHITE

All applicable prime equipment charges
All Bio Med charges
Mark I Rockets
Basic GSE

BLACK

All applicable prime equipment charges
All other development costs
All other Rocket costs
All Black GSE

The above was as a result of agreements reached between the Air Force and Agency regarding [REDACTED]

[REDACTED] G.E. was unable to establish separate records until November of 1958 at which time most of the transfers were made. It appeared that there was some confusion during the period immediately prior to the transfer and this could be a reason why the estimates submitted to LSMD in September were not more accurate.

8. The attached Exhibits "A" and "B" are a comparison of the actual and forecasted costs of the total Program and the White program respectively. The difference, or the Black program, is readily obtainable by subtraction of the White from the total Program costs. It was determined that of the total overrun of [REDACTED] represented increase in scope and of this amount [REDACTED] is applicable to the Black program.

9. The undersigned requested G.E. opinion as to the status of completion and whether or not in their opinion the present overrun was the absolute maximum. The following represents their statements:

Status of Completion

	<u>MK-I</u>	<u>MK-II</u>	<u>Black Program</u>
Eng. Design	100%	75%	95%
Design Changes	95%	50%	75%
Qualification (testing)	85%	30%	80% - 90%
Mfg.	95%	33%	25%
Deliveries	Complete except for a few spares.	One of three delivered.	3 of 10 delivered

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With regard to costs, they could foresee no major outstanding contingency and in their opinion, [] overrun was the maximum. They felt quite confident of this.

10. In summary, the Program at G.E. looks as follows:

(In 1,000 of dollars)

	<u>White</u>	<u>Black</u>	<u>Total</u>
Negotiated	[]		
Overrun			
Total			

11. As indicated, the Black share of the overrun is [] However, this is only cost to LSMD. The undersigned queried LSMD on their intentions of applying G&A to this prior to presenting the total overrun to us for funding. A firm answer was not available. However, [] indicated he did not think LSMD would ask for G&A but he would discuss this with his people and plans to visit Project Headquarters on 6 March, at which time he may have an answer on this. [] was also asked if, to his knowledge, there were any other increases in cost in the program. He stated that ITEK had advised him of a possible [] and LSMD would probably need [] to procure a cooling blanket for the nose section to be used while the missile is on the launching pad. He stated that they were in the process of preparing a revised cost proposal of the entire program with a breakdown of their costs. It is anticipated that we will receive this in the next two weeks. In addition, LSMD was requested to furnish a breakdown of costs on the "Black" overrun and show the portion that would have been costed against the "White" program had it not been for the Sept. decision to switch "White" dollars to the "Black" task.

J. H. McDonald
Contract Negotiator

[]
Comptroller, DPD

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referring to Project CORONA

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